Rubicon Technology, Inc.
Form 10-Q
May 09, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark one)

x **Quarterly report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934**
for the quarterly period ended March 31, 2012

or

¨ **Transition report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934**
for the transition period from ______ to ______

Commission file number 001-33834

RUBICON TECHNOLOGY, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**36-4419301**
(State or Other Jurisdiction of	**(I.R.S. Employer**
Incorporation or Organization)	**Identification No.)**
900 East Green Street	
Bensenville, Illinois	**60106**
(Address of Principal Executive Offices)	**(Zip Code)**

Registrant s Telephone Number, Including Area Code: (847) 295-7000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

As of May 4, 2012 the Registrant had 22,533,608 shares of common stock, par value $0.001 per share, outstanding.

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RUBICON TECHNOLOGY, INC.

Quarterly Report on Form 10-Q

For the quarterly period ended March 31, 2012

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PART I FINANCIAL INFORMATION

ITEM 1. Consolidated Financial Statements
Rubicon Technology, Inc.

Consolidated balance sheets

	March 31, 2012 (unaudited)	December 31, 2011
	(in thousands other than share data)	
Assets		
Cash and cash equivalents	$ 14,571	$ 4,290
Restricted cash	146	189
Short-term investments	40,398	50,528
Accounts receivable, net	8,390	30,655
Accounts receivable, related parties	3,902	1,989
Inventories, net	32,510	22,823
Other inventory supplies	15,752	17,613
Prepaid expenses and other current assets	1,911	4,491
Deferred tax assets	3,078	3,078
Total current assets	120,658	135,656
Property and equipment, net	122,560	120,931
Investments	2,000	2,000
Other assets	1,312	1,365
Total assets	$ 246,530	$ 259,952
Liabilities and stockholders equity		
Accounts payable	$ 6,213	$ 12,831
Accrued payroll	687	1,578
Accrued and other current liabilities	1,185	1,570
Corporate income and franchise taxes	303	612
Advance payments	414	9
Total current liabilities	8,802	16,600
Deferred tax liability	12,327	15,121
Total liabilities	21,129	31,721
Commitments and contingencies (Note 9)		
Stockholders equity		
Preferred stock, $0.001 par value, 5,000,000 undesignated shares authorized, no shares issued or outstanding		
Common stock, $0.001 par value, 45,000,000 shares authorized and 24,308,318 and 24,289,723 shares issued; 22,533,474 and 22,514,879 shares outstanding	24	24

Additional paid-in capital	332,617	332,119
Treasury stock, at cost, 1,774,844 shares	(12,148)	(12,148)
Accumulated other comprehensive loss	(11)	(50)
Accumulated deficit	(95,081)	(91,714)
Total stockholders equity	225,401	228,231
Total liabilities and stockholders equity	$ 246,530	$ 259,952

The accompanying notes are an integral part of these consolidated statements.

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Rubicon Technology, Inc.

Consolidated statements of operations

	Three months ended March 31, 2012	2011
	(unaudited) (in thousands, other than share and per share data)	
Revenue	$ 10,207	$ 37,970
Cost of goods sold	13,615	13,995
Gross profit (loss)	(3,408)	23,975
Operating expenses:		
General and administrative	2,306	2,921
Sales and marketing	456	377
Research and development	476	427
Income (loss) from operations	(6,646)	20,250
Other income:		
Interest income	33	87
Realized gain (loss) on foreign currency translation	342	(6)
Total other income	375	81
Income (loss) before income taxes	(6,271)	20,331
Income tax benefit (expense)	2,904	(1,227)
Net income (loss)	$ (3,367)	$ 19,104
Net income (loss) per common share		
Basic	$ (0.15)	$ 0.83
Diluted	$ (0.15)	$ 0.80
Weighted average common shares outstanding used in computing net income (loss) per common share		
Basic	22,514,539	22,993,614
Diluted	22,514,539	23,943,644

The accompanying notes are an integral part of these consolidated statements.

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Rubicon Technology, Inc.

Consolidated statements of comprehensive income

	Three months ended March 31, 2012	2011
	(unaudited) (in thousands)	
Net income (loss)	$ (3,367)	$ 19,104
Other comprehensive income:		
Unrealized gain (loss) on investments, net of tax	42	(22)
Unrealized gain (loss) on currency translation	(3)	(1)
Other comprehensive income (loss)	39	(23)
Comprehensive income (loss)	$ (3,406)	$ 19,081

The accompanying notes are an integral part of these consolidated statements.

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Rubicon Technology, Inc.

Consolidated statements of cash flows

	Three months ended March 31, 2012	2011
	(unaudited)	
	(in thousands)	
Cash flows from operating activities		
Net income (loss)	$ (3,367)	$ 19,104
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation and amortization	2,941	2,021
Stock-based compensation	494	866
Deferred taxes	(2,794)	
Changes in operating assets and liabilities:		
Accounts receivable	20,352	(4,039)
Inventories	(9,431)	(77)
Other inventory supplies	1,996	(1,450)
Prepaid expenses and other assets	2,634	(255)
Accounts payable	(6,731)	(3,433)
Accrued payroll	(900)	(1,699)
Corporate income and franchise taxes	(299)	950
Advanced payments	405	1,799
Accrued and other current liabilities	(406)	2,446
Net cash provided by operating activities	4,894	16,233
Cash flows from investing activities		
Purchases of property and equipment	(4,570)	(11,083)
Purchases of investments	(628)	
Proceeds from sale of investments	10,800	737
Net cash provided by (used in) investing activities	5,602	(10,346)
Cash flows from financing activities		
Proceeds from exercise of options	4	736
Restricted cash	43	(8)
Net cash provided by financing activities	47	728
Net effect of currency translation	(262)	(25)
Net increase in cash and cash equivalents	10,281	6,590
Cash and cash equivalents, beginning of period	4,290	16,073
Cash and cash equivalents, end of period	$ 14,571	$ 22,663
Supplemental disclosures of non-cash transactions		
Unrealized (gain) loss on investments	$ (42)	$ 22

The accompanying notes are an integral part of these consolidated statements.

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Rubicon Technology, Inc.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2012

1. BASIS OF PRESENTATION

Interim financial data

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for complete consolidated financial statements and should be read in conjunction with Rubicon Technology, Inc. s (the Company) annual report filed on Form 10-K for the fiscal year ended December 31, 2011. In the opinion of management, all adjustments (consisting only of adjustments of a normal and recurring nature) considered necessary for a fair presentation of the results of operations have been included. Consolidated operating results for the three months period ended March 31, 2012 are not necessarily indicative of results that may be expected for the year ending December 31, 2012.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Rubicon Worldwide LLC and Rubicon Sapphire Technology (Malaysia) SDN BHD. All intercompany transactions and balances have been eliminated in consolidation.

Foreign currency translation and transactions

Rubicon Worldwide LLC s assets and liabilities are translated into U.S. dollars at exchange rates existing at the respective balance sheet dates and capital accounts at historical exchange rates. The results of operations are translated into U.S. dollars at the average exchange rates during the respective period. Translation adjustments resulting from fluctuations in exchange rates for Rubicon Worldwide LLC are recorded as a separate component of accumulated other comprehensive income (loss) within stockholders equity.

The Company has determined that the functional currency of Rubicon Sapphire Technology (Malaysia) SDN BHD is the U.S. dollar. Rubicon Sapphire Technology (Malaysia) SDN BHD s assets and liabilities are translated into U.S. dollars using the remeasurement method. Non-monetary assets are translated at historical exchange rates and monetary assets are translated at exchange rates existing at the respective balance sheet dates. Translation adjustments for Rubicon Sapphire Technology (Malaysia) SDN BHD are included in determining net income (loss) for the period. The results of operations are translated into U.S. dollars at the average exchange rates during the respective period. The Company records these gains and losses in other income (expense).

Foreign currency transaction gains and losses are generated from the effects of exchange rate changes on transactions denominated in a currency other than the functional currency of the Company, which is the U.S. dollar. Gains and losses on foreign currency transactions are generally required to be recognized in the determination of net income (loss) for the period. The Company records these gains and losses in other income (expense).

Investments

The Company invests available cash primarily in investment grade commercial paper, corporate notes and government securities. Investments classified as available-for-sale securities are carried at fair market value with unrealized gains and losses recorded in accumulated other comprehensive income (loss). Investments in trading securities are reported at fair value, with both realized and unrealized gains and losses recorded in other income (expense), in the consolidated statement of operations. Investments in which the Company has the ability and intent, if necessary, to liquidate in order to support its current operations, are classified as short-term.

The Company reviews its available-for-sale securities investments at the end of each quarter for other-than-temporary declines in fair value based on the specific identification method. The Company considers various factors in determining whether an impairment is other-than-temporary, including the severity and duration of the impairment, changes in underlying credit ratings, forecasted recovery, its ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery in market value and the probability that the scheduled cash payments will continue to be made. When the Company concludes that an other-than-temporary impairment has resulted, the difference between the fair value and carrying value is written off and recorded as a charge on the consolidated statement of operations. As of March 31, 2012, no impairment was recorded.

The Company s long-term investment is accounted for as a cost method investment and is adjusted as needed based on a review of the investment s financial position.

Accounts receivable

The majority of the Company s accounts receivable is due from manufacturers serving the LED and SoS industries. Credit is extended based on an evaluation of the customer s financial condition. Accounts receivable are due based on contract terms and at stated amounts due from customers, net of an allowance for doubtful accounts.

Accounts outstanding longer than the contractual payment terms are considered past due. The Company determines its allowance by considering a number of factors, including the length of time past due, the customer s current ability to pay and the condition of the general economy and industry as a whole. The Company writes off accounts receivable when they are deemed uncollectible, and payments subsequently received on such receivables are recorded as a reduction to bad debt expense.

The following table shows the activity of the allowance for doubtful accounts:

	March 31, 2012	December 31, 2011
	(in thousands)	
Beginning balance	$ 378	$ 194
Charges to costs and expenses	(204)	1,873
Accounts charged off, less recoveries		(1,689)
Ending balance	$ 174	$ 378

Inventories

Inventories are valued at the lower of cost or market. Cost is determined using the first-in, first-out method, and includes materials, labor and overhead. The Company reduces the carrying value of its inventories for differences between the cost and the estimated net realizable value, taking into account usage, expected demand, technological obsolescence and other information. Inventories are composed of the following:

	March 31, 2012	December 31, 2011
	(in thousands)	
Raw materials	$ 12,765	$ 7,835
Work in progress	14,367	9,776
Finished goods	5,378	5,212
	$ 32,510	$ 22,823

Property and equipment

Property and equipment consisted of the following:

	March 31, 2012	December 31, 2011
	(in thousands)	
Land and land improvements	$ 4,123	$ 2,540
Buildings	27,076	26,915
Machinery, equipment and tooling	99,201	98,276
Leasehold improvements	7,712	7,712
Furniture and fixtures	941	834

Information systems	986	954
Construction in progress	19,289	17,530
Total cost	159,328	154,761
Accumulated depreciation and amortization	(36,768)	(33,830)
Property and equipment, net	$ 122,560	$ 120,931

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Revenue recognition

The Company recognizes revenue from product sales when earned. Revenue is recognized when, and if, evidence of an arrangement is obtained and the other criteria to support revenue recognition are met, including:

Persuasive evidence of an arrangement exists. The Company requires evidence of a purchase order with the customer specifying the terms and specifications of the product to be delivered, typically in the form of a signed quotation or purchase order from the customer.

Title has passed and the product has been delivered. Title passage and product delivery generally occur when the product is delivered to a common carrier.

The price is fixed or determinable. All terms are fixed in the signed quotation or purchase order received from the customer. The purchase orders do not contain rights of cancellation, return, exchange or refund.

Collection of the resulting receivable is reasonably assured. The Company s standard arrangement with customers includes payment terms. Customers are subject to a credit review process that evaluates each customer s financial position and its ability to pay. Collectability is determined by considering the length of time the customer has been in business and its history of collections. If it is determined that collection is not probable, no product is shipped and no revenue is recognized unless cash is received in advance.

The Company does not provide maintenance or other services and it does not have sales that involve multiple elements or deliverables.

Net income per common share

Basic net income per common share is computed by dividing net income by the weighted-average number of common shares outstanding during the period. Diluted net income per common share is computed by dividing net income by the weighted-average number of diluted common shares outstanding during the period. Diluted shares outstanding are calculated by adding to the weighted-average shares outstanding any common stock equivalents, outstanding stock options and warrants based on the treasury stock method.

Diluted net loss per share is the same as basic net loss per share for the three months ended March 31, 2012 because the effects of potentially dilutive securities are anti-dilutive.

At March 31, 2012, the Company had the following anti-dilutive securities outstanding which were excluded from the calculation of diluted net loss per share:

	March 31, 2012
Warrants	172,886
Stock options	360,376
	533,262

Comprehensive income (Loss)

Comprehensive income (loss) is defined as the change in equity of a business enterprise from transactions and other events from non-owner sources. Comprehensive income (loss) includes net earnings (loss) and other non-owner changes in equity that bypass the statement of operations and are reported in a separate component of equity. For the three months ended March 31, 2012 and 2011, other comprehensive income (loss) includes the unrealized loss on investments and foreign currency translation adjustments.

	March 31, 2012	December 31, 2011
	(in thousands)	
Beginning Balance	$ (50)	$ (10)
Unrealized gain (loss) on investments	42	(42)
Unrealized gain (loss) on currency translation	(3)	2
Ending Balance	$ (11)	$ (50)

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Recent accounting pronouncements

In June 2011, the FASB issued ASU No. 2011-05, *Comprehensive Income (ASC Topic 220): Presentation of Comprehensive Income*, (ASU 2011-05) which eliminated the option to present comprehensive income and its components in the statement of equity. The Company has adopted the requirements of ASU 2011-05 effective January 1, 2012.

Reclassifications

Certain prior period amounts on the balance sheet have been reclassified to conform to the current period presentation.

3. SEGMENT INFORMATION

The Company evaluates operations as one reportable segment, as it only reports profit and loss information on an aggregate basis to its chief operating decision maker.

Revenue is attributed by geographic region based on ship-to location of the Company s customers. The following table summarizes revenue by geographic region:

	Three months ended March 31,	
	2012	2011
	(in thousands)	
France	$ 2,751	$ 111
United States	2,125	1,915
Taiwan	1,693	23,442
Australia	1,116	
Japan	267	3,640
Korea		7,413
Other	2,255	1,449
Revenue	$ 10,207	$ 37,970

The following table summarizes revenue by product type:

	Three months ended March 31,	
	2012	2011
	(in thousands)	
Core	$ 2,758	$ 27,573
Polished	5,681	8,912
Optical	1,759	1,465
Other	9	20
Revenue	$ 10,207	$ 37,970

The following table summarizes assets by geographic region:

	March 31, 2012	December 31, 2011

	(in thousands)	
United States	$ 212,031	$ 223,430
Malaysia	34,471	36,492
Japan	28	30
Total Assets	$ 246,530	$ 259,952

4. INVESTMENTS

The Company invests available cash primarily in investment grade commercial paper, corporate notes and government securities. The Company s short-term investments balance of $40.4 million as of March 31, 2012 is comprised of U.S. Treasury securities of $2.5 million, corporate notes and bonds of $12.9 million and commercial paper of $25.0 million. The Company s investments are classified as available-for-sale securities and are carried at fair market value with unrealized gains and losses recorded in accumulated other comprehensive income (loss).

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The Company s long-term investment at March 31, 2012 consists of a $2.0 million investment in Peregrine Semiconductor, Corp. (a customer) Series D-1 Preferred shares and is accounted for as a cost method investment. The value is adjusted for impairment based on review of Peregrine s financial position. No impairment was noted as of March 31, 2012.

The following table presents the amortized cost and gross unrealized gains and losses on all securities at March 31, 2012:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in thousands)		
Short-term Investments:				
U.S. Treasury securities and agency (taxable)	$ 2,500	$	$	$ 2,500
Corporate Notes and Bonds (taxable)	12,909		4	12,905
Commercial Paper (taxable)	24,996		3	24,993
Total short-term investments	$ 40,405	$	$ 7	$ 40,398
Long-term Investments:				
Peregrine Semiconductor, Corp. Series D-1 Preferred shares	$ 2,000	$	$	$ 2,000

The following table presents the amortized cost, and gross unrealized gains and losses on all securities at December 31, 2011:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in thousands)		
Short-term Investments:				
U.S. Treasury securities and agency (taxable)	$ 4,500	$	$	$ 4,500
Corporate Notes/Bonds (taxable)	37,085		37	37,048
Commercial Paper (taxable)	8,992		12	8,980
Total short-term investments	$ 50,577	$	$ 49	$ 50,528
Long-term Investments:				
Peregrine Semiconductor, Corp. Series D-1 Preferred shares	$ 2,000	$	$	$ 2,000

The Company values its investments at fair value, defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard below describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value which are the following:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The Company s fixed income available-for-sale securities consist of high quality, investment grade commercial paper, corporate notes and government securities. The Company values these securities based on pricing from pricing vendors, who may use quoted prices in active markets for identical assets (Level 1 inputs) or inputs other than quoted prices that are observable either directly or indirectly (Level 2 inputs) in determining fair value. The valuation techniques used to measure the fair value of the Company s financial instruments having Level 2 inputs were derived from non-binding market consensus prices that are corroborated by observable market data, quoted market prices for similar instruments, or pricing models, such as discounted cash flow techniques.

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The following table summarizes the Company s financial assets measured at fair value on a recurring basis as of March 31, 2012:

	Level 1	Level 2	Level 3	Total
		(in thousands)		
Cash Equivalents:				
Money market funds	$ 5,243	$	$	$ 5,243
Investments:				
Available-for-sales securities current				
U.S. Treasury securities and agency		2,500		2,500
Corporate notes/bonds		12,905		12,905
Commercial paper		24,993		24,993
Total	$ 5,243	$ 40,398	$	$ 45,641

The following table summarizes the Company s financial assets measured at fair value on a recurring basis as of December 31, 2011:

	Level 1	Level 2	Level 3	Total
		(in thousands)		
Cash Equivalents:				
Money market funds	$ 839	$	$	$ 839
Investments:				
Available-for-sales securities current:				
U.S. Treasury securities and agency		4,500		4,500
Corporate notes/bonds		37,048		37,048
Commercial paper		8,980		
Dividends declared per common share	$ 0.22	$ 0.21	$ 0.44	$ 0.42

The accompanying notes are an integral part of these condensed consolidated statements.

CBL & Associates Properties, Inc.
Condensed Consolidated Statements of Comprehensive Income
(In thousands)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net income	$39,393	$29,532	$75,944	$93,440
Other comprehensive income (loss):				
Unrealized holding gain on available-for-sale securities	61	474	1,579	1,807
Reclassification to net income of realized (gain) loss on available-for-sale securities	(160)	—	(160)	22
Unrealized loss on hedging instruments	(765)	(2,634)	(481)	(2,072)
Total other comprehensive income (loss)	(864)	(2,160)	938	(243)
Comprehensive income	38,529	27,372	76,882	93,197

Comprehensive income attributable to noncontrolling interests in:				
Operating partnership	(5,019)	(2,275)	(9,776)	(13,150)
Other consolidated subsidiaries	(4,805)	(6,404)	(10,945)	(12,542)
Comprehensive income attributable to the Company	$28,705	$18,693	$56,161	$67,505

The accompanying notes are an integral part of these condensed consolidated statements.

CBL & Associates Properties, Inc.
Condensed Consolidated Statements of Equity
(In thousands)
(Unaudited)

		Equity							
		Shareholders' Equity							
	Redeemable Noncontrolling Partnership Interests	Preferred Stock	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Dividends in Excess of Cumulative Earnings	Total Shareholders' Equity	Noncontrolling Interests	Total Equity
Balance, January 1, 2011	$ 34,379	$23	$1,479	$1,657,507	$ 7,855	$(366,526)	$1,300,338	$223,605	$1,523,943
Net income	2,634	—	—	—	—	67,695	67,695	12,875	80,570
Other comprehensive loss	(2)	—	—	—	(190)	—	(190)	(51)	(241)
Conversion of operating partnership special common units to shares of common stock	—	—	1	728	—	—	729	(729)	—
Dividends declared - common stock	—	—	—	—	—	(62,303)	(62,303)	—	(62,303)
Dividends declared - preferred stock	—	—	—	—	—	(21,188)	(21,188)	—	(21,188)
Issuance of common stock and restricted common stock	—	—	2	190	—	—	192	—	192
Cancellation of restricted common stock	—	—	—	(184)	—	—	(184)	—	(184)
Exercise of stock options	—	—	2	1,952	—	—	1,954	—	1,954
Accrual under deferred compensation arrangements	—	—	—	27	—	—	27	—	27

Amortization of deferred compensation	—	—	—	1,376	—	—	1,376	—	1,376
Distributions to noncontrolling interests	(4,511)	—	—	—	—	—	—	(22,086)	(22,086)
Adjustment for noncontrolling interests	1,620	—	—	(2,261)	—	—	(2,261)	641	(1,620)
Adjustment to record redeemable noncontrolling interests at redemption value	1,186	—	—	(1,186)	—	—	(1,186)	—	(1,186)
Balance, June 30, 2011	$ 35,306	$ 23	$ 1,484	$ 1,658,149	$ 7,665	$ (382,322)	$ 1,284,999	$ 214,255	$ 1,499,254

The accompanying notes are an integral part of these condensed consolidated statements.

CBL & Associates Properties, Inc.
Condensed Consolidated Statements of Equity
(In thousands)
(Unaudited)
(Continued)

		Equity Shareholders' Equity							
	Redeemable Noncontrolling Partnership Interests	Preferred Stock	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Dividends in Excess of Cumulative Earnings	Total Shareholders' Equity	Noncontrolling Interests	Total Equity
Balance, January 1, 2012	$ 32,271	$ 23	$ 1,484	$ 1,657,927	$ 3,425	$ (399,581)	$ 1,263,278	$ 207,113	$ 1,470,391
Net income	1,620	—	—	—	—	55,440	55,440	8,595	64,035
Other comprehensive income	8	—	—	—	721	—	721	209	930
Conversion of operating partnership common units to shares of common stock	—	—	98	45,599	—	—	45,697	(45,697)	—
Redemption of operating partnership common units	—	—	—	—	—	—	—	(9,836)	(9,836)
Dividends declared -	—	—	—	—	—	(67,579)	(67,579)	—	(67,579)

common stock									
Dividends declared - preferred stock	—	—	—	—	—	(21,188)	(21,188)	—	(21,188)
Issuance of common stock and restricted common stock	—	—	2	327	—	—	329	—	329
Cancellation of restricted common stock	—	—	—	(255)	—	—	(255)	—	(255)
Exercise of stock options	—	—	2	4,432	—	—	4,434	—	4,434
Accrual under deferred compensation arrangements	—	—	—	29	—	—	29	—	29
Amortization of deferred compensation	—	—	—	1,496	—	—	1,496	—	1,496
Contributions from noncontrolling interests	—	—	—	—	—	—	—	4,042	4,042
Distributions to noncontrolling interests	(4,536)	—	—	—	—	—	—	(17,540)	(17,540)
Adjustment for noncontrolling interests	1,485	—	—	(4,242)	—	—	(4,242)	2,757	(1,485)
Adjustment to record redeemable noncontrolling interests at redemption value	7,370	—	—	(7,370)	—	—	(7,370)	—	(7,370)
Acquire controlling interest in shopping center property	—	—	—	—	—	—	—	14,505	14,505
Balance, June 30, 2012	$ 38,218	$23	$1,586	$1,697,943	$4,146	$(432,908)	$1,270,790	$164,148	$1,434,938

The accompanying notes are an integral part of these condensed consolidated statements.

CBL & Associates Properties, Inc.
Condensed Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Six Months Ended June 30,	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$75,944	$93,440
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	131,399	140,178
Net amortization of deferred finance costs and debt premiums	3,787	6,088
Net amortization of intangible lease assets and liabilities	(147)	(527)
Gain on sales of real estate assets	(3,130)	(712)
Gain on sale of discontinued operations	(895)	(152)
Write-off of development projects	(123)	51
Share-based compensation expense	1,739	1,502
Net realized (gain) loss on sale of available-for-sale securities	(160)	22
Write-down of mortgage and other notes receivable	—	1,500
Loss on impairment of real estate from discontinued operations	293	6,696
Gain on extinguishment of debt	—	(581)
Gain on extinguishment of debt from discontinued operations	—	(31,434)
Equity in earnings of unconsolidated affiliates	(3,339)	(3,233)
Distributions of earnings from unconsolidated affiliates	7,314	3,922
Provision for doubtful accounts	1,331	1,542
Change in deferred tax accounts	2,316	(4,926)
Changes in:		
Tenant and other receivables	5,745	3,438
Other assets	2,923	758
Accounts payable and accrued liabilities	(5,207)	(19,977)
Net cash provided by operating activities	219,790	197,595
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to real estate assets	(88,890)	(79,282)
Acquisition of real estate assets	(61,419)	—
Additions to restricted cash	(1,270)	(10,203)
Proceeds from sales of real estate assets	38,161	10,854
Additions to mortgage and other notes receivable	(2,965)	—
Payments received on mortgage and other notes receivable	2,160	2,708
Additional investments in and advances to unconsolidated affiliates	(3,969)	(19,626)
Distributions in excess of equity in earnings of unconsolidated affiliates	7,316	9,283
Changes in other assets	2,066	(7,664)
Net cash used in investing activities	(108,810)	(93,930)

CBL & Associates Properties, Inc.
Condensed Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)
(Continued)

	Six Months Ended June 30,	
	2012	2011
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from mortgage and other indebtedness	$1,136,081	$1,074,808

Principal payments on mortgage and other indebtedness	(1,108,292)	(1,057,087)
Additions to deferred financing costs	(2,688)	(5,980)
Proceeds from issuances of common stock	87	93
Proceeds from exercises of stock options	4,434	1,954
Purchase of noncontrolling interest in the Operating Partnership	(9,836)	—
Contributions from noncontrolling interests	4,042	40
Distributions to noncontrolling interests	(34,323)	(38,579)
Dividends paid to holders of preferred stock	(21,188)	(21,188)
Dividends paid to common shareholders	(63,852)	(60,731)
Net cash used in financing activities	(95,535)	(106,670)
NET CHANGE IN CASH AND CASH EQUIVALENTS	15,445	(3,005)
CASH AND CASH EQUIVALENTS, beginning of period	56,092	50,896
CASH AND CASH EQUIVALENTS, end of period	$71,537	$47,891
SUPPLEMENTAL INFORMATION:		
Cash paid for interest, net of amounts capitalized	$115,507	$134,081

The accompanying notes are an integral part of these condensed consolidated statements.

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CBL & Associates Properties, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements
(Dollars in thousands, except share data)
Note 1 – Organization and Basis of Presentation
CBL & Associates Properties, Inc. (“CBL”), a Delaware corporation, is a self-managed, self-administered, fully-integrated real estate investment trust (“REIT”) that is engaged in the ownership, development, acquisition, leasing, management and operation of regional shopping malls, open-air centers, associated centers, community centers and office properties. Its properties are located in 27 states, but are primarily in the southeastern and midwestern United States.
CBL conducts substantially all of its business through CBL & Associates Limited Partnership (the “Operating Partnership”). As of June 30, 2012, the Operating Partnership owned controlling interests in 77 regional malls/open-air centers (including our mixed-use center), 29 associated centers (each located adjacent to a regional mall), six community centers and 13 office buildings, including CBL’s corporate office building. The Operating Partnership consolidates the financial statements of all entities in which it has a controlling financial interest or where it is the primary beneficiary of a variable interest entity. At June 30, 2012, the Operating Partnership owned non-controlling interests in ten regional malls/open-air centers, three associated centers, five community centers and six office buildings. Because one or more of the other partners have substantive participating rights, the Operating Partnership does not control these partnerships and joint ventures and, accordingly, accounts for these investments using the equity method. The Operating Partnership had controlling interests in the development of one outlet center and expansion of one outlet center, both of which are owned in 75% /25% joint ventures at June 30, 2012. The Operating Partnership also had controlling interests in one mall expansion, one community center development and one mall redevelopment under construction at June 30, 2012. The Operating Partnership also holds options to acquire certain development properties owned by third parties.
CBL is the 100% owner of two qualified REIT subsidiaries, CBL Holdings I, Inc. and CBL Holdings II, Inc. At June 30, 2012, CBL Holdings I, Inc., the sole general partner of the Operating Partnership, owned a 1.1% general partner interest in the Operating Partnership and CBL Holdings II, Inc. owned an 82.3% limited partner interest for a combined interest held by CBL of 83.4%.
The noncontrolling interest in the Operating Partnership is held primarily by CBL & Associates, Inc. and its affiliates (collectively “CBL’s Predecessor”). CBL’s Predecessor contributed their interests in certain real estate properties and joint ventures to the Operating Partnership in exchange for a limited partner interest when the Operating Partnership was formed in November 1993. At June 30, 2012, CBL’s Predecessor owned a 9.8% limited partner interest and third parties owned a 6.8% limited partner interest in the Operating Partnership. CBL’s Predecessor also owned 7.6 million shares of CBL’s common stock at June 30, 2012, for a total combined effective interest of 13.8% in the Operating Partnership. The Richard E. Jacobs Group ("Jacobs"), which owned a significant noncontrolling interest in the Operating Partnership, exercised its right to convert its limited partner interest in the Operating Partnership into shares of common stock of CBL during the three months ended June 30, 2012. See Note 5 and Note 15 for more detailed information related to the Jacobs' conversion.
The Operating Partnership conducts CBL’s property management and development activities through CBL & Associates Management, Inc. (the “Management Company”) to comply with certain requirements of the Internal Revenue Code of 1986, as amended (the “Code”). The Operating Partnership owns 100% of both of the Management Company’s preferred stock and common stock.
CBL, the Operating Partnership and the Management Company are collectively referred to herein as “the Company”.
The accompanying condensed consolidated financial statements are unaudited; however, they have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and in conjunction with the rules and regulations of the Securities and Exchange Commission ("SEC"). Accordingly, they do not include all of the disclosures required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting solely of normal recurring matters) necessary for a fair presentation of the financial statements for these interim periods have been included. All intercompany transactions have been eliminated. The results for the interim period ended June 30, 2012 are not necessarily indicative of the

results to be obtained for the full fiscal year.
Certain historical amounts have been reclassified to conform to the current year's presentation. The financial results of certain properties that had been classified in continuing operations have been reclassified to discontinued operations in the condensed consolidated financial statements for all periods presented herein. Except where noted, the information presented in the Notes to Unaudited Condensed Consolidated Financial Statements excludes discontinued operations.

These condensed consolidated financial statements should be read in conjunction with CBL's audited consolidated financial statements and notes thereto included in its Annual Report on Form 10-K for the year ended December 31, 2011, as amended.

Note 2 – Recent Accounting Pronouncements

Accounting Guidance Adopted

In May 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs ("ASU 2011-04"). The objective of ASU 2011-04 is to align fair value measurements and related disclosure requirements under GAAP and International Financial Reporting Standards ("IFRSs"), thus improving the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and IFRSs. For public entities, this guidance was effective for interim and annual periods beginning after December 15, 2011 and should be applied prospectively. The adoption of ASU 2011-04 did not have a material impact on the Company's condensed consolidated financial statements.

In June 2011, the FASB issued ASU No. 2011-05, Presentation of Comprehensive Income ("ASU 2011-05"). The objective of this accounting update is to improve the comparability, consistency, and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. This guidance eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. ASU 2011-05 requires that all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but continuous statements of net income and other comprehensive income. For public entities, this guidance was effective for interim and annual periods beginning after December 15, 2011 and should be applied retrospectively. In December 2011, the FASB issued ASU 2011-12, Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05 ("ASU 2011-12"). This guidance defers the changes in ASU 2011-05 that relate to the presentation of reclassification adjustments out of accumulated other comprehensive income. Other requirements of ASU 2011-05 are not affected by ASU 2011-12. The guidance in ASU 2011-12 was effective at the same time as ASU 2011-05 so that entities would not be required to comply with the presentation requirements in ASU 2011-05 that ASU 2011-12 deferred. The adoption of this guidance changed the presentation format of the Company's condensed consolidated financial statements but did not have an impact on the amounts reported in those statements.

In December 2011, the FASB issued ASU No. 2011-10, Derecognition of in Substance Real Estate - a Scope Clarification ("ASU 2011-10"). This guidance applies to the derecognition of in substance real estate when the parent ceases to have a controlling financial interest in a subsidiary that is in substance real estate because of a default by the subsidiary on its nonrecourse debt. Under ASU 2011-10, the reporting entity should apply the guidance in Accounting Standards Codification ("ASC") 360-20, Property, Plant and Equipment - Real Estate Sales, to determine whether it should derecognize the in substance real estate. Generally, the requirements to derecognize in substance real estate would not be met before the legal transfer of the real estate to the lender and the extinguishment of the related nonrecourse indebtedness. Thus, even if the reporting entity ceases to have a controlling financial interest under ASC 810-10, Consolidation - Overall, it would continue to include the real estate, debt, and the results of the subsidiary's operations in its consolidated financial statements until legal title to the real estate is transferred to legally satisfy the debt. ASU 2011-10 should be applied on a prospective basis to deconsolidation events occurring after the effective date. For public companies, this guidance is effective for fiscal years, and interim periods within those years, beginning on or after June 15, 2012. Early adoption is permitted. The Company elected to adopt ASU 2011-10 effective January 1, 2012. The adoption of this guidance did not have an impact on the Company's condensed consolidated financial statements.

Note 3 – Fair Value Measurements

The Company has categorized its financial assets and financial liabilities that are recorded at fair value into a hierarchy in accordance with ASC 820, Fair Value Measurements and Disclosure, ("ASC 820") based on whether the inputs to valuation techniques are observable or unobservable. The fair value hierarchy contains three levels of inputs that may be used to measure fair value as follows:

Level 1 – Inputs represent quoted prices in active markets for identical assets and liabilities as of the measurement date.

Level 2 – Inputs, other than those included in Level 1, represent observable measurements for similar instruments in active markets, or identical or similar instruments in markets that are not active, and observable measurements or market data for instruments with substantially the full term of the asset or liability.

Level 3 – Inputs represent unobservable measurements, supported by little, if any, market activity, and require considerable assumptions that are significant to the fair value of the asset or liability. Market valuations must often be determined using discounted cash flow methodologies, pricing models or similar techniques based on the Company's assumptions and best judgment.

The asset or liability's fair value within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Under ASC 820, fair value measurements are determined based on the assumptions that market participants would use in pricing the asset or liability in an orderly transaction at the measurement date. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs and consider assumptions such as inherent risk, transfer restrictions, and risk of nonperformance.

Fair Value Measurements on a Recurring Basis

The following tables set forth information regarding the Company's financial instruments that are measured at fair value on a recurring basis in the accompanying condensed consolidated balance sheets as of June 30, 2012 and December 31, 2011:

		Fair Value Measurements at Reporting Date Using		
	Fair Value at June 30, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Available-for-sale securities	$27,092	$15,263	$—	$11,829
Privately held debt and equity securities	2,475	—	—	2,475
Interest rate cap	—	—	—	